

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Retail Ground and Parcel Select Ground
Service Standard Changes, 2022

Docket No. N2022-1

PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

(Issued April 6, 2022)

Pursuant to Order No. 6124¹ and 39 C.F.R. §§ 3020.117 and 3020.118, the Postal Service is requested to respond to the following questions to clarify the record on its request for an advisory opinion under 39 U.S.C. § 3661(b) regarding Retail Ground (RG) and Parcel Select Ground (PSG) service standard changes.² To facilitate inclusion of the requested material in the evidentiary record, the Postal Service shall have a witness attest to the accuracy of the answers. For each question, produce every document (including any calculations, analysis, assumptions, studies, or workpapers) that was used, relied upon, or referenced in preparing the response. Responses shall be provided as soon as they are available, but no later than April 13, 2022.

¹ Notice and Order on the Postal Service's Request for an Advisory Opinion on Changes in the Nature of Postal Services, March 23, 2022 (Order No. 6124).

² United States Postal Service's Request for an Advisory Opinion on Changes in the Nature of Postal Services, March 21, 2022 (Request).

1. Please refer to USPS-T-1, USPS-T-2, and USPS-T-3.³ The Postal Service describes a “significant growth” in the market for shipping and delivery of commercial packages, and observes a trend of retailers moving inventories closer to population centers. USPS-T-1 at 8. The Postal Service summarizes these trends’ combined effect as lowering the demand for “expedited, long-haul shipments” and increasing the demand for short distance and less expensive ground transportation of commercial packages. *Id.* The Postal Service also contends that the increased demand for short-distance ground transportation is “well suited for RG and PSG services with shortened service standards in the contiguous United States.” *Id.* The Postal Service also states that the percentages of RG and PSG transported by air will increase due to the consolidation with FCPS, but the Postal Service anticipates that “[a]s the surface transportation network grows,” air transportation would become “almost entirely eclipsed” by surface transportation, with “a vast preponderance of RG and PSG packages” using ground transportation. USPS-T-2 at 17.
 - a. Please confirm that as the demand for long-haul package shipments decreases, density in long-distance lanes decreases as well, leading to volumes necessitating long-distance transportation growing less sufficient to justify the cost of surface transportation.
 - i. If not confirmed, please explain.
 - ii. If confirmed, please explain why the Postal Service expects that “a vast preponderance of RG and PSG packages would travel on the ground” in a network with declining long-distance package volumes. USPS-T-2 at 17.

³ Direct Testimony of Steven E. Jarboe on Behalf of the United States Postal Service (USPS-T-1), March 21, 2022; Direct Testimony of Kevin P. Bray on Behalf of the United States Postal Service (USPS-T-2), March 21, 2022; Direct Testimony of A. Thomas Bozzo on Behalf of the United States Postal Service (USPS-T-3), March 21, 2022.

- b. Please describe the surface transportation network that the Postal Service anticipates to grow, including how this network would transport long-distance volumes in a cost-effective manner.
- 2. Please refer to USPS-T-2. Please refer also to USPS-T-3. The Postal Service states that upgrading service standards for RG and PSG in the contiguous United States from the current 2-8 days to 2-5 days would correspond to RG and PSG products being transported together with FCPS pieces. USPS-T-2 at 1. The Postal Service explains that this would result in transportation mode shifts for RG, PSG, and FCPS volumes. USPS-T-3 at 5-6. Namely, RG and PSG volumes would shift from the surface to the FedEx Day Turn air transportation, while FCPS would shift from commercial air to FedEx Day Turn air transportation. *Id.* For RG, PSG, and FCPS volumes transported in the surface network, the Postal Service anticipates gains in efficiency due to increase in truck capacity utilization. USPS-T-2 at 12-13. Please provide details regarding the anticipated impact of the planned changes on the Postal Service's transportation network.
 - a. Please confirm that the Postal Service's projections for FCPS do not include any air-to-surface volume shifts from the current (*i.e.*, Fiscal Year (FY) 2021) levels, and only include FCPS volumes shifting from the less costly commercial air carriers to FedEx Day Turn.
 - i. If not confirmed, please provide references to all materials or analysis filed in the instant proceeding that demonstrate support for the proposition that truck capacity will be utilized more efficiently.
 - ii. If confirmed, please explain why the Postal Service does not project any of the FCPS volumes that currently necessitate air

transportation⁴ to shift to the surface network, following the implementation of the 2- to 5-day service standards for FCPS, RG, and PSG, and the associated extended surface transportation reach capability for 4-day and 5-day volumes.

- b. Please confirm that the Postal Service estimates FCPS volume shifts from the less costly commercial air to the more costly FedEx Day Turn air transportation,⁵ as well as an improvement in the surface network's capacity utilization, as a result of "the bundling together of RG and PSG with FCPS." USPS-T-2 at 12-13; USPS-T-3 at 1-2. If not confirmed, please explain.
 - i. If question 2.b. above is confirmed, please explain why the three products (FCPS, RG, and PSG), when assigned to air transportation, cannot be transported separately, each via the least costly air carrier that ensures the mail's arrival at the destination within the available transit window.
 - ii. If question 2.b. above is confirmed, please also confirm that processing and distribution centers (P&DCs) are currently operationally capable of dispatching small parcels (such as FCPS) at the same time as large parcels (such as RG and PSG that would be added to the FCPS network), and that adding RG and PSG to FCPS flows would not result in adding trips to existing surface lanes. Please support the provided response with data and specific examples.

⁴ Currently, with FCPS packages subject to the 2- to 3-day service standards, less time is available in their transportation windows, forcing the Postal Service to transport 3-day volumes via the air transportation.

⁵ See Library Reference USPS-LR-N2022-1/NP3, March 21, 2022, Excel file "RG.PSG.FCPS.Cost.Impact.nonpublic.xlsx," tab "Summary_Trans," cells H7 and J7.

- c. Please explain whether the Postal Service would combine RG, PSG, and FCPS volumes with any other inter-sectional center facility (SCF) network products' volumes on surface transportation in order to increase truck capacity utilization. If the Postal Service would not combine RG, PSG, and FCPS volumes with any other products' volume, please explain why.
- 3. Please refer to Docket No. ACR2021, Library Reference USPS-FY21-32, December 29, 2021. Please also refer to the Docket No. ACR2020, Library Reference USPS-FY20-32, December 29, 2020. Please confirm that accrued inter-SCF network costs increased 32 percent between FY 2020 and FY 2021.⁶ If not confirmed, please provide the inter-SCF network transportation cost increase between FY 2020 and FY 2021, and please include the source of this value.
 - a. If confirmed, please provide the reasons for this cost increase and describe to what degree each reason contributed to the observed increase in costs.
 - b. Please explain whether the Postal Service has tracked truck capacity utilization, trip frequency, surface network mileages, transportation mode assignments for all lanes, as well as unanticipated pressures on processing, dispatch, and/or delivery operations, following the implementation of the First-Class Mail (FCM) service standards. If the Postal Service has not monitored these impacts, please explain why.
 - c. Please refer to question 3.b. above. If the Postal Service has monitored the impacts of the FCM service standards implementation, please describe whether the Postal Service's data suggest that there has been a

⁶ See Docket No. ACR2021, Library Reference USPS-FY21-32, Excel file "CS14-Public-FY21.xlsx," tab WS14.4, cell O47 for the FY 2021 inter-SCF transportation costs. See Docket No. ACR2020, Library Reference USPS-FY20-32, Excel file "CS14-Public-FY20.xlsx," tab WS14.4, cell O47 for the FY 2020 inter-SCF transportation costs.

reduction in FCM capacity flown, increase in surface network utilization, and reduction in inter-SCF network trips, due to the anticipated ability to place FCM and FCPS volumes on shared transportation.⁷ Please also list the data source for the provided observations.

- d. Please refer to question 3.c. above. If efficiencies projected from the implementation of the FCM service standards are not evident, please explain why to the extent possible.
 - e. Based on the responses to questions 3.a. to 3.d. above, please explain why the Postal Service anticipates that efficiency gains from increased truck space utilization would materialize following implementation of the changes proposed in the instant proceeding.
4. Please refer to USPS-T-2. The Postal Service states that the planned changes to the RG and PSG service standards are predicated on both the planned change to the FCPS service standards and the concomitant improvement and optimization of the processing and surface transportation network. USPS-T-2 at 15. Please explain what impact the addition of RG and PSG volume to the FCPS flows will have on the transportation network efficiencies estimated to be achieved following the implementation of the 2- to 5-day service standards for FCM and FCPS,⁸ specifically:
- The estimated decrease in FCPS volume transported by air from about 37 percent to about 27 percent

⁷ See *generally* Docket No. N2021-1, Advisory Opinion on Service Changes Associated with First-Class Mail and Periodicals, July 20, 2021 (Docket No. N2021-1 Advisory Opinion).

⁸ See *generally* Docket No. N2021-2, Advisory Opinion on the Service Standard Changes Associated with First-Class Package Service, September 29, 2021 (Docket No. N2021-2 Advisory Opinion).

- The estimated 61 percent of FCM volume projected to divert from the air to the surface network
- The projected about 1 percent decrease in overall inter- SCF mileages, with about 6 percent fewer trips in the network⁹
- The estimated \$314 million in annual savings, associated with the above-referenced mileage and trip reduction, and the estimated decrease in FCM and FCPS capacity flown

Docket No. N2021-2 Advisory Opinion at 100-03, 114-19. If the Postal Service anticipates that any of the projected efficiencies listed above will not materialize, or will partially materialize, please explain why and provide revisions to original estimates to the extent possible.

5. Following from the Postal Service's responses to questions 1. to 4. above, please explain how each discussed item contributed to the Postal Service's determination that adding RG and PSG products to the FCPS network would enhance achievement of its goals of financial sustainability and service excellence.¹⁰
6. Please refer to USPS-T-2. The Postal Service indicates that it evaluated whether delivery by surface transportation was feasible within the 5-day window, "[g]iven the current state of the FCPS surface transportation network." USPS-T-2 at 16. Where surface transportation was determined feasible, the Postal Service compared the price of surface transportation over a given distance to the price of

⁹ When compared to the actual FY 2020 inter-SCF network trips and mileages, the Commission estimated a 12 percent increase in mileages in the inter-SCF network, with about half of the network trips eliminated. Docket No. N2021-2 Advisory Opinion at 114-19.

¹⁰ United States Postal Service, Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence, March 23, 2021, available at https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf (Postal Service Strategic Plan).

air transportation “for any given package.” *Id.* at 17. Please provide details regarding the Postal Service’s transportation impact analysis.

- a. Please confirm that the current FCPS surface transportation network includes surface routes and transportation mode assignments for Origin-Destination processing facility pairs that are responsive to the currently applicable 2- to 3-day service standards for FCPS. If not confirmed, please explain.
- b. Please confirm that the current FCPS surface transportation network, responsive to the 2- to 3-day service standards for FCPS, does not include long-distance, coast-to-coast surface routes, and includes more lanes assigned to air transportation than a 2- to 5-day FCPS network could accommodate. If not confirmed, please explain.
- c. Please confirm whether the Postal Service determined the feasibility of the existing surface lanes, *i.e.*, lanes responsive to the currently applicable 2- to 3-day FCPS service standards, to deliver volumes within the 5-day window.
 - i. If not confirmed, please describe in detail “the current state of the FCPS surface transportation network.” USPS-T-2 at 16.
 - ii. If confirmed, please explain in detail the impact of combining limited surface reach transportation network (*i.e.*, network responsive to the currently applicable 2- to 3-day service standards) with the 2- to 5-day service window for FCPS, RG, and PSG on the estimated transportation network efficiencies and cost changes.
- d. Please confirm whether the Postal Service’s transportation analysis resulted in some surface lanes’ volumes shifting to the air network on the basis of air transportation being more cost-effective. If not confirmed,

- please explain. If confirmed, please provide percentages of modeled volumes that shifted from the surface to the air network, by product.
- e. Please confirm whether the Postal Service's transportation analysis resulted in some air lanes' volumes shifting to the surface network on the basis of surface transportation's feasibility to deliver modeled volumes within the 5-day window in a cost-effective manner. If not confirmed, please explain. If confirmed, please provide percentages of modeled volumes that shifted from the air to the surface network, by product.
 - f. Please explain the Postal Service's statement that it compared the prices for air and surface transportation "for any given package."
7. The Postal Service states that upgrading service standards for RG and PSG in the contiguous United States from the current 2-8 days to 2-5 days would correspond to RG and PSG products being processed together with FCPS pieces. USPS-T-2 at 1. The Postal Service then describes the current and future operational flow for RG and PSG. *Id.* at 2-10. For the impact on processing operations, the Postal Service expects reduction or elimination of "touches" for RG and PSG products in the network distribution center (NDC) network, and anticipates "negligible effects" of added RG and PSG volumes to existing FCPS and other parcel processing operations in P&DCs. USPS-T-3 at 1. Please provide details regarding anticipated changes to the Postal Service's processing operations.
- a. Please confirm that in the present operational state, P&DC operations with respect to RG and PSG are limited to grouping bins containing RG and PSG pieces received from Post Offices, collection boxes, or in the case of PSG, from customers, and dispatching them to tier 1 or tier 2 NDCs. USPS-T-2 at 2. If confirmed, please explain whether tier 1 and tier 2 NDCs represent separate facilities, or whether they represent separate operations within the same NDC facility.

- b. Please confirm that in the future operational state, P&DCs' processing operations would change from grouping bins containing RG and PSG packages to sorting individual packages to their 3-digit or 5-digit destination ZIP Codes, depending on packages' destinations. *Id.* at 6. If not confirmed, please explain. If confirmed, please explain whether P&DCs would sort machinable RG and PSG parcels on the same equipment as FCPS packages.
- c. Please provide percentages of machinable, non-machinable, over 20 lbs, and automation rejects for RG and PSG for the last five fiscal years (*i.e.*, for FY 2017 to FY 2021). If these percentages are not available, please explain why they are not available.
- d. Following from the Postal Service's response to question 8.a. above, please confirm that in the future operational state, P&DCs' dispatch operations would change from dispatching bins containing RG and PSG pieces to one or two destination points (tier 1 and tier 2 NDCs) to dispatching individual, current tier 2 NDC packages, to multiple destination P&DCs. If not confirmed, please explain.
- e. Please describe in detail current P&DCs' processing operations for Priority Mail (PM), Priority Mail Express (PME), FCPS, and First-Class Mail (FCM) letters and flats, in terms of processing equipment used, sortation levels, most frequent causes of processing delays, including how the Postal Service aligns mail volumes' dispatch times with Critical Entry Times at destination processing facilities, and with the transportation network.
- f. Please describe the impact of added RG and PSG volumes to P&DCs' mail processing operations.
- g. Please describe the impact of added RG and PSG volumes to P&DCs' dock operations and dock congestion.

- h. Please explain which of PM, PME, FCPS, and FCM volumes the Postal Service currently places on shared surface transportation. For products not sharing surface transportation, despite it being operationally feasible, please list reasons.
- i. Please explain which of RG, PSG, PM, PME, FCPS, and FCM volumes the Postal Service plans to place on shared surface transportation and why.
- j. Removing touch points may eliminate the Postal Service's time and cost associated with certain activities (such as unloading of arriving containers and loading of containers for dispatch to additional processing nodes), but would transfer the time or cost associated with other mail processing tasks (such as sorting or barcode labeling) to other facilities for affected volumes. Please identify which mail processing activities have been entirely eliminated and which activities have been transferred to another facility. In addition, please explain whether the Postal Service evaluated capabilities of P&DCs' to handle additional package volumes in an efficient manner and how it did so.
- k. Following from the Postal Service's responses to questions 7.a. to 7.i. above, please explain why the Postal Service anticipates the addition of RG and PSG volumes to FCPS flow to have "negligible effects on existing processing of FCPS and other parcel products in plants." USPS-T-3 at 1.

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Presiding Officer